

The RA Prime Minister Aram Sarkissyan in his speech held during the session of the National Assembly, which was discussing the Y2000 State Budget, has named the appropriate use of around USD 58 mln obtained from the privatization to be a great contribution, which should be properly profited by and it should be accurately determined in what field and how it is to be utilized.

The end of the first stage of the privatization in the Republic of Armenia was marked by voucher privatization completion. Since 1997 the monetary privatization has set off in the country. Here, in each particular case the possible price ceiling was supposed to be presented together with the submission of an efficient investment project. Certain financial resources have been obtained in the outcome. When compared to the current overall potential of the national economy, the amount of them cannot be underestimated. The RA Prime Minister in his speech held with the National Assembly has totaled the amount to be around AMD 30 billion. According to our estimations, during Y2000 this amount may double, considering the expected privatization of the power distributive network.

It seems that today nobody doubts the fact, that the amounts resulting from the privatization of the national assets, which had been created throughout decades by more than a few generations neither logically nor ethically can be directed to the consumption purposes or to the solution of whatsoever temporary budgetary problems. During the history of the countries in transition these resources that can be obtained just once. Therefore, the efficiency level of their investment can be regarded as kind of a report of today's generation to the preceding one. And to what extent are we prepared to properly use the resources and how they were managed previously?

Currently, the resources gained from the privatization in Armenia are making a form of the RA external national reserves, and as such, are managed by the Western top-rate banks, rising by a minor annual interest. Actually, these resources are directed to the needs of foreign countries, developing them and not our country. Certainly, over previous years some part of the resources has been used for various purposes, some of which being capital expenses implemented under the fourth Amendment to the 1998 State Budget and the third Amendment to the 1999 State Budget, replenishment to the Charter Capital of the Armenian Investment Company etc.

In his speech at the session of the National Assembly discussing the 2000 budget the RA Prime Minister Aram Sarkissyan has mentioned that the international financial organizations do not recommend investing the privatization resources in the economy simply because the efficient complex conception for their management has not been developed yet. That is to say, once we have no an efficient model, under which the resources once entering the economy will not outcome in the inflation, but will boost the economy, the International Monetary Fund will be against the realization of the above resources.

Various approaches for the resource utilization exist, some of them being alleviation of the national external debt burden, indexation of the population's deposits in the former USSR SberBank (Savings Bank), implementation of the budgetary capital expenses including the infrastructure objectives and rehabilitation of the Disaster Zone. To our best conviction, splitting up of the total amount in line with the mentioned approaches will lead to the dissipation of the expected result and eventually, it will not be possible to make a general efficiency evaluation.

The amounts for indexation of the population's deposits and alleviation of the national external debt burden are not as large to tangibly mitigate the existing situation. Moreover, partial reimbursement of the deposits will likely to bring to inflation and its economic nature suggests for consumption. As to alleviation of the national external debt burden, firstly, this cannot be really substantial considering the gap between the vast amount of the debt and the available resources. Secondly, when considering the effectiveness of the credit resources utilization, particularly over the first years of the debt accumulation and how big is the share of the amounts directed to the various consulting services in the credit portfolio, it creates a ground for possibility that the partial debt repayment can be qualified in future as a property sale for retain of foreign experts.

All the above-mentioned suggest the activation of investment activity to be the only way for solving the problem. The latter will enhance our ability to compete for investments in the world market, which is the prerequisite for creation of new jobs, improvement of population welfare and, in general, the consequent prosperity of our nation. This is far from emphasizing the need to increase the capital budgetary expenses. It is the common truth that the State being a good one and/or not much corrupted, is still a poor economic agent; since a Civil Servant will never act in respond to the market motives. Under the conditions of stable democracy and free market, the private sector is supposed to be the best guide to the investment activity. The international experience is an evidence for it.

We arrive at a single opinion: the amounts generated by the privatization process will be directed to the implementation of investment projects aiming at activation of the economy, whereas the private sector (including overseas companies and private persons) is the one to submit the best application for preparation of investment projects. The role of the State is to conduct a relevant policy, the best mechanism of which is application of State guarantees system. The application of the said system will allow the State to manage the conduct of private investment projects through spheres and sectors prioritized by the State, without its direct participation in entrepreneurial activities. That is to say, setting the priorities for sectors, spheres of the national economy and for social development, prior to granting a guarantee to intermediate organization for each submitted business plan. The Government should first of all discuss these from the view of the State policy priorities.

Given that overseas and local investors are interested in investing under stable macroeconomic conditions and political regime, the country risk reduction is of great importance and the development of the system of the State guarantees will surely support it. The application of the system of the State guarantees will both encourage the foreign investments and manage the investment flows. The State guarantees should cover only regional and political risks, such as:

- Termination of an agreement by the State;
- Amendments to the legislation;
- Elimination of rights and privileges granted by the State;
- Alteration of the State political regime;
- Wars.
- State guarantees shall be provided only on the basis of the following:
 - Amount of the required investments;
 - Investments term;
 - Conformity of the investments to the strategy of investment policy.

The experience gained by other countries provides the best examples of mechanisms for provision of the guarantees. As to Armenia, the procedure of providing a State guarantee suggests the involvement of three parties:

- The RA Government;
- Top-rate financial institution;
- Potential investor.

In this case the RA Government invests a guarantee amount in a top rate financial institution (see chart below), against which the financial institution provides a guarantee to a potential investor. The strength of this mechanism relates to the fact that the actual investments will exceed the amount invested by the Government, and the State will not act as a direct investor, assuming more efficient use of the resources and the direct economic interference of the State will be reduced. Privatization resources are not directly invested in the economy; hence, the inflation risk is excluded, whereas interest is going to be paid against the principal. There is a possibility of utilization of the said amount as investment resources for the second time. Actually, these resources acquire a new economic nature, growing into a permanent foundation for the State guarantees.

In 1998-1999, the RA Government officially reported for several times on arrangements related to the provision of guarantees made with a number of international organizations, such as ExIm Bank (USA), Hermes Co. (Germany). These companies have been operating in transition economies over decades and gained a good experience.

Still, the process of providing the State guarantees has not been brought to life, since it had not been analyzed thoroughly, adequately assessed and harmonized with long-term tasks of tax, budgetary and monetary policies.

Nowadays, when the recorded moderate, but stable economic growth has been changed into consequent decline with stagnation and excessive tension in social situation, an efficient promotion of any minor source of resources aimed at economy activation has become urgency. The budget discussions have shown that the Government will try to use all the possibilities of achieving this. Here, there is a risk that rapid steps will lead us away from the adopted free market ideology where the State has the most important regulator's functions only.

It is true that to date there are sums accumulated from the privatization, numerous problems are still unsolved, either appropriate or inappropriate limitations are set by international financial institutions. Under these conditions it is unacceptable to linger, the best option of utilization of privatization sums, in our opinion, is the application of the mechanism of provision of guarantees proved by the experience of many countries through intermediation financial companies as described above. As a result, the sums will not be spent on consumption, our generation will not be ashamed in future for dissipation of the resources created by the previous generation, investments will be made by the incentive to generate maximum profit, and the State, managing the self-recovering guarantee foundation, will continuously direct investment flows to the State strategic priority sphere. This will result in solution of the problems related to equipment and working capital purchase in many companies, and competition rather than the good will of the government will be the driving force for it.